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Fiscal Note

Fiscal Services Division

HF 289 – City Self-Funded Debt (LSB 1761YH)
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Fiscal Note Version – New

DIVISION I

Description

Division I of **House File 289** authorizes cities to borrow money from surplus funds in reserve accounts or funds in order to self-finance general or essential corporate purpose bond projects. This Bill requires the city to levy taxes to be deposited to the debt service fund in an amount sufficient to pay the principal and interest on such loans. The reserve funds or accounts of city utilities or combined city utilities are exempted from the provisions of this Bill, and borrowing from those funds or accounts is prohibited.

This Bill specifies that such loans cannot cause the balances in reserve accounts or funds to fall below any minimum prescribed by law. "Surplus" is defined as the cash balance available in a fund or account in excess of the amount of expenses and disbursements made in the previous three months, plus the amount of transfers, payments, or disbursements required in the following three months. A loan issued under the provisions of this Bill must not result in a user fee, rate, or property tax increase.

This Bill requires that loan agreements issued under the new provisions establish an interest rate on the loan between the minimum rate established for state funds in accordance with Iowa Code section **12C.6**(2)(a) and the maximum rate established for unpaid warrants in accordance with Iowa Code section **74A.6**(2). This Bill limits the amount of indebtedness a city can incur under the Bill's provisions to $6.0 million.

Assumptions

Under current financial conditions, reserve funds invested in a public project are likely to earn a higher rate of return than they are currently earning. Self-funding of bond projects reduces issuance expenses usually paid to bonding attorneys, financial consultants, and rating agencies.

Fiscal Impact

To the extent that the new provisions reduce bond issuance expenses for cities or result in greater investment earnings on reserve funds, Division I of HF 289 may have a positive fiscal impact for cities. The extent to which the new provisions will be used and will result in reduced expenses and greater earnings is unknown.

Sources

City Administrator, City of Cedar Falls
LSA Analysis

DIVISION II

Description

Division II of HF 289 pertains to the acquisition of private property by public entities using eminent domain.

Assumptions

Changes in this Bill that could result in a fiscal impact include:

- Authorization by vote of two-thirds of each chamber in the General Assembly and the Governor's signature to condemn property on the State Register of Historic Places. This may increase the time for negotiating an eminent domain project.
- Reimbursement to a landowner for attorney fees up to $100,000 for a lake creation project that uses condemnation. This would increase costs for an eminent domain project.
- Prohibiting the Department of Natural Resources (DNR) from using eminent domain to obtain property from willing sellers. This change will eliminate the ability of willing sellers to defer payment of federal capital gains tax under Internal Revenue Code Section 1033.

Fiscal Impact

The fiscal impact of Division II of HF 289 cannot be determined because the number of future eminent domain projects is unknown. However, the changes in this Bill could increase the costs for property acquisition.

Sources

Department of Cultural Affairs
Department of Natural Resources
Department of Transportation
Iowa State Association of Counties

/s/ Holly M. Lyons

February 24, 2014

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.